

## Message Text

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DRAFTED BY TREAS/IDN/RBLAKE  
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TO AMEMBASSY ANKARA

C O N F I D E N T I A L STATE 208585

EXDIS

E.O. 11652:GDS

TAGS: EFIN, IMF, TU

SUBJECT: MEETING BETWEEN SECRETARY GENERAL ELEKDAG AND  
UNDER SECRETARY SOLOMON

1. SECRETARY GENERAL ELEKDAG MET WITH TREASURY UNDER  
SECRETARY SOLOMON ON AUGUST 9TH. ATTENDING ON THE TURKISH  
SIDE WERE AMBASSADOR ESENBEL AND METIN KUTAOGLU, DIRECTOR  
GENERAL OF THE OFFICE OF BILATERAL ECONOMIC AFFAIRS IN  
THE MFA. ATTENDING ON THE U.S. SIDE WAS ROBERT BLAKE,  
TURKEY DESK OFFICER AT TREASURY.

2. SECRETARY GENERAL ELEKDAG BEGAN BY DESCRIBING THE  
PURPOSE OF HIS VISIT TO WASHINGTON AND REVIEWING PREVIOUS  
BILATERAL DISCUSSIONS. HE STRESSED TURKEY'S DESIRE TO  
BROADEN U.S./TURKISH RELATIONS BEYOND TRADITIONAL FOCUS  
ON MILITARY/SECURITY MATTERS. HE SAID THAT THIS VIEW HAD  
BEEN ACCEPTED BY U.S.G. OFFICIALS AND THAT IT WAS ON THIS  
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BASIS HE WISHED TO RAISE TURKISH ECONOMIC CONCERN WITH  
THE UNDER SECRETARY.

3. THE SECRETARY GENERAL THEN DESCRIBED THE DIFFICULT  
ECONOMIC SITUATION THE ECEVIT GOVERNMENT FACED UPON ASSUMING  
POWER AND THE SEQUENCE OF EVENTS LEADING UP TO IMF APPROVAL

OF THE STANDBY ARRANGEMENT IN APRIL. WITH APPROVAL OF THE PROGRAM TURKEY EXPECTED TO RECEIVE NEW RESOURCES FROM THE INTERNATIONAL COMMUNITY AND THE COMMERCIAL BANKS. THIS HAS NOT YET COME TO PASS. THE SECRETARY GENERAL SAID THAT THERE WAS AGREEMENT BETWEEN THE TURKISH GOVERNMENT AND THE BANKS ON THE "GUIDELINES AND MODALITIES" OF THE PRIVATE BANK FINANCING BUT THAT FINAL AGREEMENT HAD NOT YET BEEN REACHED. THE TURKISH GOVERNMENT WAS NOTING A "SENSE OF PROCRASTINATION" ON THE PART OF PRIVATE BANKS ABOUT THE ARRANGEMENT. THE SECRETARY GENERAL STATED THAT TURKEY NEEDED NEW CREDITS TO IMPORT NECESSARY INPUTS, THE LACK OF WHICH HAS LED TO TURKISH INDUSTRY PRODUCING AT ONLY 50 PERCENT CAPACITY.

4. DESPITE THESE UNFAVORABLE DEVELOPMENTS, THE SECRETARY GENERAL DESCRIBED TURKEY'S PERFORMANCE UNDER THE PROGRAM AS ENCOURAGING. AMONG THE FAVORABLE DEVELOPMENTS, HE CITED A DECELERATION IN THE "GENERAL PRICE INDEX" FROM 4 PERCENT IN APRIL TO 3 PERCENT IN MAY TO 1.8 PERCENT IN JUNE. HE SAID THAT PRELIMINARY ESTIMATES OF JUNE EXPORTS, UP 30 PERCENT OVER THE JUNE 1977 LEVEL, INDICATE THAT THEY ARE RESPONDING WELL TOO. HE WAS LESS OPTIMISTIC REGARDING WORKERS REMITTANCES BUT SAID THAT THE PROBLEM HERE WAS LARGELY STRUCTURAL; I.E., TURKISH EXPATRIATE WORKERS NOW MAINTAIN FAMILIES IN EUROPE AND THEREFORE REMIT LESS MONEY TO TURKEY. HE SAID THAT LEGISLATIVE

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PROBLEMS HAVE DELAYED IMPLEMENTATION OF THE TAX LAW, BUT THAT THIS DELAY WAS NOT A REFLECTION ON THE WILL OF THE ECEVIT GOVERNMENT. BANKING DEPOSITS HAVE MARKED A SUBSTANTIAL INCREASE AND TURKEY HAD OBSERVED, FOR THE FIRST QUARTER, THE CREDIT CEILINGS. ON THE LABOR FRONT, AGREEMENT HAD BEEN REACHED BETWEEN THE GOVERNMENT AND THE LARGEST LABOR UNION ON WAGE LEVELS AND THE CRITERIA UPON WHICH THEY WOULD BE BASED.

5. IN CONCLUSION, THE SECRETARY GENERAL SAID THAT DEVELOPMENTS TO DATE HAD BOTH POSITIVE AND NEGATIVE ASPECTS AND THAT AT LEAST SIX MONTHS UNDER THE IMF PROGRAM WOULD BE NECESSARY BEFORE ITS EFFECTIVENESS COULD BE EVALUATED. THE IMF, HOWEVER, HAS TOLD THE TURKISH GOVERNMENT THAT THE STABILIZATION PROGRAM NEEDS TO BE FUNDAMENTALLY REVISED AND THAT TURKEY WILL NOT BE PERMITTED TO MAKE ITS SECOND STANDBY DRAWING IN THE ABSENCE OF AN EXCHANGE RATE ADJUSTMENT. THIS THE TURKISH GOVERNMENT IS UNWILLING TO DO. AS THINGS STAND NOW, THE FINANCE MINISTRY DOES NOT HAVE SUFFICIENT DATA TO CONVINCE THE OTHER MINISTRIES OF THE NEED FOR A POLITICALLY DIFFICULT DEVALUATION. HOWEVER, FAILURE TO MAKE THE NEXT DRAWING WOULD HAVE HARMFUL

EFFECTS ON THE PRIVATE BANK ARRANGEMENT AND THIS WOULD LEAD TO A WORSENING ECONOMIC SITUATION WITH CONSEQUENT POLITICAL RAMIFICATIONS. THE SECRETARY GENERAL THEREFORE ASKED FOR U.S. ASSISTANCE TO MAKE THE IMF MORE OBJECTIVE AND LESS STRINGENT. HE CLAIMED THAT THE FUND WAS JUDGING TURKEY'S PERFORMANCE BY INCLUDING DATA FROM JANUARY, FEBRUARY, AND MARCH AND THAT DATA SINCE THE IMPLEMENTATION OF THE PROGRAM IN APRIL HAVE "MANY POSITIVE ASPECTS."

6. UNDER SECRETARY SOLOMON REPLIED THAT THE U.S. WAS SYMPATHETIC TO THE PROBLEMS TURKEY FACES. WE HAD HEARD OF THE PROBLEMS THAT HAD ARisen BETWEEN TURKEY AND THE IMF AND WERE TERRIBLY DISAPPOINTED. WE HAD NOT BEEN INFORMED, CONFIDENTIAL

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HOWEVER, OF THE TURKISH GOVERNMENT'S VIEW THAT THE MOST RECENT MONTHS HAVE SHOWN SOME IMPROVEMENT. HE NOTED THAT THE U.S. DOES NOT INTERFERE IN FUND DECISIONS IN THESE MATTERS. THE FUND IS AN INTERNATIONAL INSTITUTION AND THE U.S. DOES NOT CONTROL THE FUND STAFF. HE FELT THAT IN THE INTERESTS OF BETTER COMMUNICATION IT WOULD BE USEFUL IF THE SECRETARY GENERAL COULD TALK WITH SOME OF THE TOP LEVEL PEOPLE AT THE FUND DURING HIS STAY IN WASHINGTON.

7. THE UNDER SECRETARY SAID THAT WHILE THE U.S. COULD NOT TELL THE FUND WHAT TO DO, HE WOULD ASK HIS STAFF FOR A REPORT ON THE ECONOMIC TRENDS IN THE POST-APRIL PERIOD AND IF THE TRENDS ARE AS FAVORABLE AS THE SECRETARY GENERAL STATED, THERE MAY BE SOME APPROPRIATE WAY THEY COULD BE BROUGHT TO THE ATTENTION OF THE FUND MANAGEMENT. HE EMPHASIZED, THOUGH, THAT THE U.S. WOULD NOT ENGAGE IN ANY ARM TWISTING WITH THE FUND; IT WOULD MERELY BRING TO ITS ATTENTION CERTAIN POINTS. THERE WAS NO GUARANTEE THE FUND WOULD CHANGE ITS VIEWS.

8. SECRETARY GENERAL ELEKDAG RESPONDED THAT HE WAS FAMILIAR WITH U.S. POLICY AS REGARDS THE IMF. HE SAID THAT GIVEN THE NEWLY AVAILABLE DATA FOR JUNE THE TURKISH GOVERNMENT FELT IT WAS TOO EARLY TO JUDGE; THE SITUATION WAS TOO UNCLEAR. THE TURKISH GOVERNMENT WOULD BE WILLING TO REVIEW THE PROGRAM IN DETAIL IN THE FALL WHEN MORE DATA WOULD BE AVAILABLE. UNDER SECRETARY SOLOMON NOTED THAT THE TURKISH GOVERNMENT'S VIEWS ON THE STRINGENCY OF THE IMF HAD BEEN EXPRESSED BY OTHER GOVERNMENTS AS WELL. HE SAID THAT GIVEN THE FUND'S ROLE, IT HAD TO OPERATE THIS WAY. HE WOULD ASK, THOUGH, THE U.S. EXECUTIVE DIRECTOR TO INFORM THE FUND OF THE JUNE DATA. HOW-  
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EVER, IF THE FUND CONTINUES TO REMAIN CONVINCED THAT AN ADJUSTMENT IS NECESSARY, THERE IS NOTHING WE CAN DO.

9. THE SECRETARY GENERAL STRESSED AGAIN THE POLITICALLY DIFFICULT SITUATION THE ECEVIT GOVERNMENT FOUND ITSELF IN. AN ADJUSTMENT IN THE EXCHANGE RATE WOULD HAVE "OBNOXIOUS" EFFECTS AND THE TURKISH GOVERNMENT DID NOT WISH TO UNDERTAKE THIS MEASURE WHEN THE SITUATION WAS SO UNCLEAR. UNDER SECRETARY SOLOMON CLOSED BY SAYING THAT WE RECOGNIZED THE DIFFICULTIES AND WOULD EXAMINE THE POST-APRIL DATA. VANCE

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